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THE RISE OF COMMERCIAL BANKING INSTITUTIONS IN THE UNITED STATES



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THESIS.

There were no commercial banks in America during the Colonial period. The so-called banks of this period existed merely for the purpose of issuing notes and were not commercial in character. The first real bank to be established was the Bank of North America, chartered in 1781. This tardy rise of banking institutions was due to the peculiar conditions of colonial trade and industry. Commercial banking institutions did not arise until there was a change in these conditions which made the rise and growth of banks necessary, and when they did arise, commercial banking developed in compliance with trade requirements.

I.

THE CONCEPTION OF BANKS AND BANKING DURING THE COLONIAL PERIOD.

The early settlements in America, like all new agricultural communities, were deficient in capital. The colonists knew that they required something for the development of their trade and natural resources which they did not possess, but their attempts to supply this deficiency show that they did not clearly understand their need. Their need was capital, but they fell into the error common to persons possessing land in a new country. They thought what they needed was merely more money, and accordingly, instead of establishing agencies which might have enabled them to make the best and most systematic use of the limited capital and credit which they did possess, they resorted to what seemed to them a much easier course, the issue of paper money.

In some respects their course was at first a natural one. There was a real need of a larger medium of exchange. This need, which continued to be felt to a greater or less degree during the whole colonial period, was, it is true aggravated by the excessive issues of paper money, but nevertheless, it was a natural and real need. Metallic money is an expensive medium of exchange and new settlers on account of the necessity of employing all their capital productively are very loath to invest even a part of it in hard money, which is only a tool of exchange. Circulating notes are much cheaper, and providing their value can be assured, may to some extent, supply the need for money in domestic operations. The colonists therefore resorted to the issue of paper money, and it was issued to some extent in each of the thirteen colonies. This device was, however, employed "without limitation or judgment" so that instead of facilitating commercial intercourse, it became its worst barrier.* Dr. Douglass, a Boston

* Sumner, History. 5.

physician and one of the ablest and most energetic colonial writers on financial questions, wrote in 1740 a strong argument against the issue of colonial paper money. He strongly condemned the "infatuation of our colonies running headlong into depreciating paper currency." He said that it had brought nothing but evil, and that the demand for paper money came from the debtors and not from the merchants and large traders.* This view is slightly unfair to the colonists, for the merchants, as will be shown, were often the promoters or advocates of paper money schemes, but the fact remains, that nearly all of the issues ended in depreciation and were productive of loss and disorder.

The so-called "banks" established in the colonies were mere paper money machines, and were not, as will be shown, commercial in character. In order to understand the conception of banking in America during the colonial period, it is necessary to study to some extent the history of the paper money issues. To the colonists, "banking projects", and "paper money schemes" were the same thing. Paper money was issued by "banks" both public and private. The term "bank," says Sumner, "was applied to the mass of bills provided for and loaned out at one time under one act of legislation,"† and the term was also commonly used to mean the issue of notes by individuals and private companies. In its strictest sense, the term "bank" was applied to an issue of notes that were loaned, and not to a public issue for the purpose of paying government expenses, but this distinction was not generally made, and public issues which were not loaned, were also spoken of as "banks".‡

The colonial period falls, naturally, into three distinct divisions as regards the nature of the banks established. Up to 1690, the banks formed were private banks, issuing notes based upon land or imperishable merchandise; from 1690 to the downfall of the great Land Bank in 1741, both private banks and public banks were formed, issuing notes based upon land, imperishable merchandise, or specie; and from 1741 to the end of the period, public banks of a similar nature

* Douglass, 330.

† Sumner, *History*, 5.

‡ See note §, page 11.

continued, but with the exception of the Bank of Pennsylvania chartered in 1780, no private banks were formed.

The first banking project, to which any reference can be found, was in 1652. In May of that year, the General Court of Massachusetts appointed a council "to consider all sorts of trading, and to consult about the best ways of improving the same" etc.,* and in the same year there is an allusion to "what has been thought of by any for raising a Bank" etc.† It is also known that about the same time "for some years paper bills passed for payment of debts."‡ Nothing more definite is known about this early attempt.

The first "bank" in America about which anything definite is known, was one started in Massachusetts in March, 1671, by the Rev. John Woodbridge. Mr. Woodbridge did not succeed in establishing this bank firmly. It existed only a short time, and no bills were issued. In 1681 it was re-established as a private bank of credit, by which notes were issued. A pamphlet attributed to Mr. Woodbridge, which was presented to the Massachusetts Council in 1667, shows the nature of this bank. The substance of the pamphlet is well indicated by its title, which is, "A Proposal for erecting a Fund of Land by Authority, or Private Persons, in the nature of a Money Bank; or Merchandise Lumber, to pass Credit upon, by Book Entries or Bills of Exchange, for great Payments; and change-bills for running cash. Wherein is demonstrated First, the necessity of having a Bank to enlarge the Measure of Dealings in this Land, by showing the benefit of Money, if enough to mete Trade with; and the disadvantage when it is otherwise; and Secondly, That Credit pass'd in Fund, by Book and Bills (as afore) will fully supply the defect of Money. Wherein is related, of how little value Coin, as a Measure of Trade, need be, in itself; what inconveniences subject to. The worth a fund-bill, or Payment therein is of, & not of that Hazard".§ The plan and the arguments supporting it, says Trumbull, do not differ widely from the Massachusetts Land Bank of 1714.¶ It

* Quoted by Trumbull, 7, from Mass. Records III, 267 and IV, (1) 86.

† Quoted by Felt, 33, from Mass. Records; also by Douglas, History, 42.

‡ Douglas, History, 317; Felt, 33.

§ Quoted by Trumbull, 10.

¶ Trumbull, 11.

was a private bank not chartered by the colony. There is no record of how long it remained in existence, and but little is known of the extent of its operations. Felt makes note of the fact that it did not ruin its projectors.

The first chartered bank in the colonies was established by John Blackwell of Boston in 1686. The nature of this bank is shown by the proposal for a charter, and by the report of the action of Governor Dudley and his council, who approved the plan as presented without change. A proposal was presented "by John Blackwell of Boston, Esqr., on behalf of himself and divers others, his participants, as well in England as in this country; as also a Constitution, Modell or Frame of Rules and Orders requisit, and to be observed, in the erecting and maintaining of a Bank of Credit Lumbard and exchange of moneys by Persons of approved Integrity, prudence & estates in this country, wherein such a foundation is layed for delivering out Bills, or giving credit on such Real Estates of Lands as also personal Estates of goods and merchandizes not subject to perishing or decay," etc.* This proposal was acted upon favorably, on Sept. 27th., 1686. "upon consideration of the great decay of trade, obstructions to Manufactures and Commerce in this Country, principally occasioned by the present scarcity of Coyne." "And for that it is not visible how the same may be remedied unless some other medium be approved than the species of silver, which very injuriously hath been transported into other parts hence. And for as much as it hath been suggested and made appeare to us, that the defects aforesayd may be supplied with Bank Bills, or Credit given by persons of estate and known integrity and reputation, which may pass with greater ease and security in all payments of twenty shillings or above, than monies coyned And having perused and considered a proposal, made to us by John Blackwell, Esq., . . . liberty is granted for the Directors or Conservatives of the bank to commence the issuing of bills, on security of real and personal estate, and imperishable merchandize".† Concerning the history of this association but little is known. All that has been found is a brief reference

* Quoted by Felt, 46, and by Trumbull 12, from Mass. Arch. Usurpation, Vol. 1, 104-107. Referred to also by Douglas, History, 45-46.

† Quoted by Felt, 46, from Mass. Arch. Usurpation, Vol. 1.

made to it in 1714 by an anonymous writer of a small pamphlet. "Our Fathers about twenty-eight years ago," it reads, "entered into a partnership to circulate their Notes founded on Land Security, stamped on paper, as our Province Bills, which gave no offense to the Government", etc.* This reference would indicate that it operated as a land bank, while, as has been shown, the action taken by the President and his council permitted also the issue of notes upon personal estates and imperishable merchandize. The association continued its operations only a short time, certainly not after the issue of the provincial paper money in 1690. Felt says that it probably did not survive beyond the Revolution of 1689.†

Another attempt to form a private bank for the issue of notes was made in 1689, by a number of citizens of Philadelphia. The Minutes of the Council for February 7th., 1689, thus makes note of the scheme: "The Governor acquainted them (the petitioners) that he did know no reason why they might not give their personal bills to such as would take them as money to pass, as merchants annually did bills of exchange, but that it might be suspected that such as usually clipp'd or coyn'd money, would be apt to counterfeit their bills, unless more than ordinary care were taken to prevent it, which might be their Ruine as well as ye People's that should deale with them",‡ etc. It is not known whether this bank was established.

These few cases constitute the known banking projects in the colonies before 1690. The banks formed before that time were all of one kind,—private banks, issuing notes based upon land and imperishable merchandise.

The establishment of a public bank in Massachusetts in 1690, and later in some of the other colonies, marks the beginning of another class of banks, and stopped for a time the attempt to issue notes by private banks.* The occasion for the first

* Quoted by Felt, 47; by Trumbull, 14; and by Douglas, History, 46.

† Felt, 47.

‡ Quoted in Scharf & Westcott, III., 2085.

§ The Massachusetts issue in 1690 was not a "bank," even according to the colonial conception of the term in its strictest sense. The notes were not loaned, but merely paid out in the disbursements of the colony. The issue was, however, commonly looked upon as a bank, for it performed the chief function of the colonial bank. It increased for a time the amount of money in circulation. Felt (page 49), recognizes the fact that this issue was commonly considered as a bank. He alludes to it as the "provincial bank" of 1690. Trumbull (page 14) also refers to it as a public "bank of credit," and says that for a time there were no attempts at private banking.

public bank in the colonies, was to provide means to meet the expenses incurred by the unsuccessful expedition to Canada.* The Provincial Bank in Massachusetts was established in 1690, and the first issue of notes was limited to 7000 pounds. Other issues followed, 40,000 pounds being issued for the Canada expedition alone.†

It was expected that these notes would be only a temporary expedient, issued in anticipation of taxes, but being once tried they proved such a tempting expedient that there were repeated issues and re-issues.‡ For the first few years they were promptly called in by the payment of taxes, but in 1704 the policy began to be adopted of postponing the payment of the taxes, in anticipation of which the notes were issued, and "thus unnaturally", says Douglass, "instead of providing for posterity, they proceeded to involve them in debt".§ This policy of the postponement of taxes continued for more than a quarter of a century, and the time for the redemption of the treasury notes was repeatedly extended, with the result that depreciation set in. This depreciation was due, not so much to a redundancy of paper money, but rather, as Douglas says, "to the impairment of public confidence in the solvency or good faith of the government."|| By 1713, according to Thomas Hutchinson, the historian of Massachusetts Bay, the paper bills had become the sole instrument and measure of commerce, gold and silver being entirely banished.¶ The bad state of trade and the general stringency in money affairs were seriously felt, and from 1710 to 1714, merchants and politicians were putting forward schemes for remedying the evils. It was generally thought that an increase of paper money would enliven and reform trade, and the controversy was chiefly waged concerning the method to be employed in

* On Dec. 10th, 1690, a committee was empowered by the General Court of Massachusetts, to issue immediately £7000, in bills from 5 shillings to £5. This was determined upon, "considering the present poverty and calamities of the country, and through scarcity of money, the want of an adequate measure of commerce, whereby they are disadvantaged in making present payment as desired yet being willing to settle and adjust the account of said debts (The debts incurred by the expedition against Canada) and make payment thereof with what they can." (Quoted from Mass. Province Records, by Felt, 50.)

† Hutchinson, II., 187 and 188.

‡ Douglass, 305.

§ Ibid.

|| Douglas, History, 121.

¶ Hutchinson, II., 187.

the issue of more notes. Three parties were formed.* The first favored withdrawing the paper bills and depending upon gold and silver. This party was very small, and although it numbered among its followers some of the most influential men in the Province, among them Mr. Hutchinson, its plan was not seriously considered. A second party advocated a private bank. "There was nothing more in it," says Hutchinson, "than issuing bills of credit which all the members promised to receive as money but at no certain value, compared with silver and gold; and Real Estates, to a sufficient value were to be bound as a security that the company should perform their engagements".† This party was very numerous, and Hutchinson says that it was made up generally of "persons in difficult or involved circumstances in trade or such as were possessed of real estate but had little ready money, or men of no substance at all".‡ This view is undoubtedly somewhat biased, as has been pointed out by Trumbull.§ for several representatives were in favor of the private bank and subscribers to its stock, as were also some of the leading merchants and most influential men in the province. A third party favored an issue of bills by the government to individuals who would mortgage their estates as security for the repayment of the loan with interest, within a term of years. The interest was to be paid annually and was to be used for the support of the government.

There was a long struggle, but at length in 1714, the plan for a public bank was adopted as the lesser of the two evils. A loan of 50,000 pounds in bills of credit was provided for. These were to be loaned to the inhabitants for five years at five per cent interest, a fifth part of the principal to be paid annually. The private bank party was defeated, but although for a time diminished in numbers, its zeal increased, and it exerted a strong influence upon the politics of the country, until after the defeat of the great land bank scheme of 1740.

The issue of 1714 was followed by additional issues. The consequent depreciation of the bills in circulation, caused a serious derangement of the currency, and resulted in a great

* See Hutchinson, II., 206 et seq.

† Hutchinson, II., 207.

‡ Hutchinson, II., 207 and 208.

§ Trumbull, 26 and 27.

deal of suffering and want, especially to those who depended on their income for support.*

The history of paper money issues by private and public banks in Massachusetts, has been treated so fully because, although the issues in the other colonies differ somewhat from those in Massachusetts, the experience of Massachusetts is typical, and exhibits all of the various kinds of "banks" resorted to in the colonies. All of the colonies resorted to the issue of bills of credit, and the consequent disorders experienced in Massachusetts, followed to a greater or less degree in the other colonies.

By 1733, there was a general complaint throughout New England of the scarcity of money.† The issues in Massachusetts and New Hampshire had been restricted to some extent by royal instructions; Connecticut had little trade, and did not need much money, consequently her issues were limited; Rhode Island emitted bills in large quantities. These bills depreciated, and circulating largely in the other colonies, caused a widespread disturbance of trade. In consequence of these disorders, the merchants of Boston confederated and mutually agreed not to receive any of these depreciated bills. In order to supply a currency, a large number of them joined together and formed a bank upon a specie basis. In the words of Hutchinson, they "formed themselves into a company, entered into covenants, chose directors, etc., and issued 110,000 pounds redeemable in ten years in silver at 19 shillings per ounce, the then current rate, or gold in proportion, a tenth part annually".‡ The agreements of the merchants not to receive the current bills were soon broken. Further public issues by Massachusetts, New Hampshire and Connecticut, flooded the country, and the merchants soon began to receive the new bills. The 19 shilling notes of the merchants were hoarded, and injustice was again caused by the depreciated paper money.

For about ten years previous to 1739,§ the general court of Massachusetts had been annually issuing bills for the char-

* See Felt; Hutchinson, Vol. II; Bancroft, Vol. III; Barry, "History of Mass.," Part III; Douglass.

† See Hutchinson, II., 380 et seq; Douglass.

‡ Hutchinson, II., 381.

§ The facts concerning the history of the rise and progress of the Land Bank of 1740-41 are taken from Hutchinson, Vol. II., unless otherwise stated.

ges of the government. The redemption of these bills had been continually put off as long as possible, and since royal instructions prevented them from going beyond the year 1741, that year would be loaded with taxes amounting to between thirty and forty thousand pounds sterling. To pay this large amount seemed impossible, and there was a general dread of withdrawing all the paper money from circulation without substituting some other medium in its place. Hutchinson proposed to the general court to borrow from England upon interest, a sufficient sum to redeem the outstanding bills, thus preventing a contraction of the currency and distributing the burden of taxation over a number of years. This proposal was rejected, a larger number favoring what was called the "Land Bank or Manufactory scheme", which had been revived in 1739.

No more provincial bills could be issued until all the bills that were extant should be redeemed, but it was believed that the royal instructions were not a bar to the issue of bills by private persons. The project of 1714 for a private bank was therefore revived. A company was formed in 1740 to give credit to 150,000 pounds lawful money to be issued in bills. Each person was to give a mortgage on real estate in proportion to the sums he subscribed and took out, or to give a bond with two sureties. The personal security of any one person was limited to 100 pounds. The subscribers or partners were to pay three per cent interest annually, and were to repay each year five per cent of the principal sum. Produce and manufactures of the province were taken in payment. There were about eight hundred persons in the company and the scheme had many supporters, both in the legislature and among the people. So many of the representatives for 1740 were either subscribers to the scheme, or its hearty supporters, that the legislature for that year is known as the "Land Bank House."

The Land Bank of 1740-41 began operations without a charter. A plan of the bank was presented to the Council so that it might be recorded in the Secretary's office but the council voted that "after their expressed disapprobation of the company as promoting fraud, it is an indignity to their body for such a request to be made, and they direct the sec-

retary to return the document."* The liberal provisions which the Company had taken unto itself, of issuing notes, some of which were not redeemable before twenty years and "then only in goods at an arbitrary and unknown valuation", brought about the establishment of other banks upon the same plan.† There was great and vigorous opposition to these banks among the principal merchants, and as the situation was alarming, applications were made to Parliament for relief. The Land Bank Company, and all others of a similar nature were accordingly dissolved by the extension to the Colonies of the famous Anti-bubble Act.‡ This act branded the Land Bank as illegal, and effectively, though with a great deal of opposition, put an end to this kind of banking in the colonies.§ 50,000 or 60,000 pounds were put out before Parliament interfered. A large proportion of these notes were issued at a discount, and as the act provided that the possessors of the bills had a right of action against every partner or director for the full sums expressed with interest, a great deal of hardship resulted.||

After the downfall of the Land Bank, no private bank for the issue of notes was established in the colonies until 1780, when the Bank of Pennsylvania was chartered by Congress to assist in carrying on the war. The disorders of the currency in the colonies were, however, not at an end. Private issues were prohibited, but from this time until after the establishment of the Federal Constitution, the various colonies, and later the Continental Congress and the new states, continued to issue public bills of credit, with results that were even more disastrous than those of the earlier period.

* Felt, 102, from Massachusetts Provincial Records.

† White, 255; Sumner, History, 10; Felt, 107.

‡ In March, 1741.

§ White, 257.

|| It took a number of years to wind up the affairs of the Land Bank. As late as May 30th, 1757, a notice appeared in the Boston Gazette, stating that "The surviving partners of the late Manufactory Scheme, are hereby desired (as they regard their interest) to meet either in person or by proxy, at the house of Mr. Thomas Bell, Innholder in Roxbury, on the first Wednesday of July next, then and there to consider and hath for so many years been in the hands of Commissioners. For motive may the partners consider that another assessment is warmly talked of; and how can it be otherwise seeing it would be unreasonable for the respectable commissioners to sit 12 or 14 years longer, to transact the company's affairs without an honorable support." Mr. White says (page 257) that the litigation extended through a quarter of a century.

We have shown the conception of banking in America during the colonial period. None of the banks established were commercial in character. They did not receive upon deposit the surplus funds of the community and use them in supplying the needs of the community. In other words, they were not banks of deposit and discount. Banking consisted merely in the privilege of issuing notes. The banks formed were of different kinds, as has been shown. They were both public and private, and were either land banks, merchandise banks or specie banks according to the nominal basis upon which their issues were made.

In the next chapter we shall point out the change in the conception of banking, as shown by the institutions established, and we shall give a short account of the beginning of Commercial Banking in the United States.

II.

THE FIRST COMMERCIAL BANKS IN THE
UNITED STATES.

Although no commercial banks were formed in America during the colonial period, some of the merchants and public men were, in the latter part of the period, planning and working for their establishment. As early as 1763, the large and growing business of the port of Philadelphia encouraged some of its principal merchants to consider the formation of a bank.* Morris in a speech before the Pennsylvania Assembly in 1786, said that although the proprietary government "had no idea of a bank, the commercial men of the province had, and I as a merchant laid the foundation for one and established a credit in Europe for the purpose. From the execution of this design, I was prevented only by the Revolution."† Gouge in his history of Paper Money and Banking, mentions the fact that a project for a bank about the year 1763, met with great opposition on the ground that a few men would be given undue advantages in trade, and even though the Revolution had not interfered with Morris' plan, it is probable that it would have been vigorously opposed.‡

The outbreak of the Revolution delayed for a time the plans already begun for the establishment of a bank. Commerce was prostrated, and the energies of the public men, and to a large extent of the people generally, were directed toward vigorously prosecuting the war. The difficulties incurred in providing means for carrying on the war would have been greatly lessened, by the aid of a well established bank, as is abundantly shown by the later history of the Revolution. Congress lacked the power to enforce payment of taxes and the different colonies made but small and tardy returns on the requisitions made upon them. There were

* Scharf & Westcott, Hist., III, 2086.

† Cary's debates, 37. Quoted by Sumner, History, 12.

‡ Gouge, 13.

no established agencies through which Congress might negotiate either foreign or domestic loans. It had to rely wholly upon individual efforts and personal appeals.* By the year 1780, the condition of the country had become critical. The army was poorly fed and clothed, and paid only in a depreciated paper currency; there was no money on hand to pay the soldiers or to buy supplies, and Congress was unable to do anything to allay the discontent. It was thought that every possible means of raising funds had been tried and the resources of the Government seemed exhausted. Something had to be done at once if the war were to be continued.

It was at the time of such gloomy and discouraging prospects that the ladies of Philadelphia raised by subscription \$300,000 in paper currency,† and other subscriptions were made to assist in obtaining recruits and supplies. This idea spread, and brought about the establishment in July of the Bank of Pennsylvania, by a number of patriotic persons who subscribed 300,000 pounds Pennsylvania currency in real money for the purpose of supplying and transporting food to the army. This plan was proposed at a meeting in Philadelphia on June 17th., 1780, and within a few days the subscriptions were all made. Ninety-two persons in all, pledging themselves for amounts varying from one to ten thousand pounds, signed the subscription list.‡ The heading of this list shows the object of the bank. "Whereas in the present situation of public affairs," it reads, "the greatest and most vigorous exertions are necessary for the successful management of the just and necessary war in which we are engaged with Great Britain, we, the subscribers deeply impressed with the sentiments that on such occasion should govern us, in the prosecution of a war on the event of which our own freedom and that of our posterity, and the freedom and independence of the United States, are all involved, hereby severally pledge our property and credit for the several sums specified and mentioned after our names, in order to support the credit of a bank to be established for furnishing a supply for the armies of the United States."§

* For good accounts of the financial difficulties of the Revolution, see Sumner, *Financier and Finances of the Revolution*; McMaster; White.

† In May, 1780.

‡ The list with names and amounts subscribed given in Lewis, 19.

§ Quoted by Lewis, 19, from 2 Hazzard's *Historical Register*, 260.

This shows clearly that the object was a patriotic one, and not commercial. Ten per cent of the subscriptions were to be paid in at once, the remainder in installments as needed. An organization was formed with the title of the "Pennsylvania Bank" and officers elected, who were authorized to borrow money and to issue notes bearing interest at the rate of six per cent. All moneys received by the bank, were to be used solely in supplying the needs of the army and in discharging the notes and expenses of the bank. It was expected that Congress would gradually, as it was able, repay all the money advanced, after which the bank should call in its notes and wind up its business. It began operations on July 17th., after having received the official recognition and sanction of Congress, remained open about a year and a half, and was finally wound up in 1784.*

It will be seen that the Pennsylvania Bank was not a bank in the modern sense of the term any more than the banks described in the foregoing chapter. It was organized for a special purpose, and all of its funds were used to that purpose, and not loaned. The money deposited or lodged in the bank was not subject to check at any time, but was borrowed for a specific time not exceeding six months. Hamilton spoke of the bank as "not an institution, but only a particular subscription for a particular purpose,"† and Morris described it as "in fact nothing more than a patriotic subscription of continental money, for the purpose of purchasing provisions for a starving army."‡ Peletiah Webster, an able and energetic writer on colonial problems, wrote in 1780, that there was no bank in existence in America at that time,§ and other authorities bear out this statement.||

It is to Robert Morris that the credit is due of founding the first commercial bank in the United States, the Bank of North America, which was incorporated by Congress Dec. 31st., 1781. Thomas H. Goddard well said, in his account of banks in Europe and America, that "Robert Morris may

* For the history of the Bank of Pennsylvania, see Lewis, 16-23; Sumner, F. & F's of the Rev., II., 21-24; and Paine, "Dissertations on Government, the Affairs of the Bank, and Paper Money."

† Hamilton, Works, I. 233, (referred to by Sumner F. & F's of Rev. 23).

‡ Quoted by Sumner, F. & F's of Rev., 22, from Ford MSS.

§ Webster, 5th. Essay.

|| Goddard, 49; Paine, Dissertations; Gouge.

justly be styled the father of the system of credit and paper circulation in the United States."* The attempts that had been made before this time had come to naught. The plans of 1763 were, as we have seen, not carried out. It is believed that Hamilton had, as early as 1779, considered the establishment of a bank, but nothing definite is known of his plans.† In a letter to James Duane, in September 1780, Hamilton outlined a plan for a bank saying "the only certain manner to obtain a permanent paper credit is to engage the moneyed interests immediately in it (a bank), by making them contribute the whole or part of the stock, and giving them the whole or part of the profits."‡ In the same year he proposed to Morris, that a bank be established with a capital of 200 million dollars,§ and in a letter to Morris on April 30th., 1781, he offered a plan for a bank with a capital of three million pounds lawful money.|| This bank was to receive money on deposit from individuals, to be repaid when called for, or passed by order to the credit of others, and was to loan money to the public or to individuals at an interest not exceeding eight per cent.

Hamilton's plans were examined and considered by Morris, who had been made Superintendent of Finance on Feb. 28th., 1781. He was, however, unwilling to attempt an undertaking on so large a scale, and drew up a plan of his own which, he thought, would be adequate to the national wants and more certain of popular approval.¶ The plan for the Bank of North America was presented to Congress, May 17th., 1781, and provided for a National Bank with a capital stock of \$400,000 issued in 1000 shares of four hundred dollars each, payable in gold and silver. Among other things, the plan provided "that the Board of Directors determine the manner of doing business, and the rules and forms to be pursued, * * * and dispose of the money and credit of the bank, for the interest and benefit of the proprietors, and make from time to time such dividends out of the profits as they may think proper," and "that the superintendent of the

* Goddard, 49.

† Sumner, History, 12.

‡ Hamilton, Works, I., 222.

§ Hamilton, Works, III., 76.

|| Hamilton, Works, III., 82.

¶ Lewis, 27.

Finances of America shall have a right at all times, to examine into the affairs of the bank, and for that purpose shall have access to all the books and papers."* After a lively debate, the plan was approved by Congress on May 28th., with a recommendation to the several states that no other bank or bankers be established during the war.† The Ordinance of Dec. 31st., incorporating the Bank of North America, gave recognition to the fact that the Bank would be of great service to the government and that "the exigencies of the United States render it indispensably necessary that such an act be immediately passed."‡

The Bank of North America originated primarily as a government necessity, in a time of great national stress.§ "I mean," said Morris, "to render this a principal pillar of American credit, so as to obtain the money of individuals for the benefit of the Union, and thereby bind those individuals more strongly to the general cause by ties of private interest."|| There was, however, another reason, and a very important one for establishing the bank, viz., in the words of Morris, "that the small sums advanced by the holders of bank stock may be multiplied in the usual manner by the means of their credit, so as to increase the resources which the government can draw from it, and at the same time by placing the collective mass of private credit between the borrowers and lenders, supply at once the want of ability in the one, and of credit in the other".¶ The bank, was, in other words, not only to render aid to the government, but was to be a bank of deposit and discount, an agency through which assistance might be obtained, in the development of the natural resources of the country, its trade and commerce, "An institution," said Morris, "that most probably will continue as long as the United States,^o and that will become as useful to commerce and agriculture in the days of peace as it must

* Journal of Congress, May 17, 1781.

† Ibid, May 28, 1781.

‡ Ibid, Dec. 31, 1781.

§ Gouge in his History of Paper Money and Banking, page 13, says, that the plan "would have encountered spirited opposition, if it had not been brought forward as a fiscal measure, and at a time when neither the legislature nor the people could give it the consideration it deserved."

|| Dip. Corr. Rev. XI., 378, quoted by Sumner, F. & F's of Rev., II., 27.

¶ Ibid VII., 439, quoted by Sumner, F. & F's, II., 27.

^o The Bank is still in existence, having entered the National system in November, 1864. It was permitted by special act of Congress to retain its former title without the addition of the word "National."

be to the government during the war".* How well the bank fulfilled the purpose for which it was established may be seen from its subsequent history.

The bank opened its doors for business on Chestnut street in Philadelphia on the 7th. of January, 1782. It began immediately to receive deposits and to discount commercial paper,† and to render assistance to the government. "Without the establishment of the national bank", said Morris, "the business of the Department of Finance could not have been performed. From the aids given by this institution, the United States was able to keep up an army consisting of a larger number of men than they had in the field before or than they could have maintained without these aids. The army was in every point on a much more respectable footing than formerly, and kept the enemy at bay."‡

Although the Bank of North America aided the government to some extent by making direct advances of money, yet it was not in this way that it proved of the greatest assistance in carrying on the war. Gouge pointed out the fact that this direct aid had been greatly exaggerated,§ for the sums advanced by the bank did not at any time exceed \$165,000 above the amount of silver actually paid into the bank by the government.|| It was indirectly through its general operations as a commercial bank that its services were the most valuable. As Morris stated in his report for 1785, "the direct loans of the Bank were not the only aid which it afforded. Considerable facilities were obtained by discounting the notes of individuals, and thereby anticipating the receipt of public money. Besides which, the persons who had contracted for furnishing rations to the army were also aided with discounts upon the public credit. And in addition to all this it must be acknowledged that the credit and confidence which was revived by means of this institution formed the basis of that system through which the anticipations made within the bounds of the United States had, upon the first day of July, 1783, exceeded \$820,000." ¶

* Dip. Corr. Rev. II., 375.

† Lewis, 40 and 42; Sumner, F. & F's of Rev., II., 32.

‡ Quoted by Lewis, 49.

§ Gouge, 13.

|| Money paid in for bank stock by the government.

¶ Quoted by Sumner, F. & F's of Rev., II., 32. Paine wrote in 1786 (Dissertations 383) that after the establishment of the bank there was a sudden restoration of public and private credit.

Although the bank had many opponents, it was generally recognized that it proved of great service to the government. Felt notes that the bank was of such great assistance to the administration in improving the embarrassed finances and reviving prostrate credit, that "many who had opposed it became its warm friends and supporters." * Not only was the bank a public benefit, but the effect of its establishment on business and commercial concerns in general was also "happy and immediate." † Morris wrote in a private letter in 1784, that "the bank has created a punctuality here in such (business) matters as to render it a pleasure to trust safe people in the course of dealings, and everybody feels the benefit of it," ‡ and Thomas Paine in his "Dissertations" on the bank in 1786, said that "it gives a kind of life to what would otherwise be dead money," that it collects the scattered sums of idle money and puts them into circulation. §

The people of the United States were quick to appreciate and to make use of the conveniences of the bank. As early as 1786, we are told, || it had become an almost universal practice for despositors desiring funds and those making loans at the bank to accept a "bank credit" and draw "checks" upon it, instead of taking actual money or bank bills.

The early and continued financial success of the bank admits of no doubt. The first dividend was paid in 1782, and from that time to the present, annual dividends have been declared. ¶ In 1782 a dividend of $8\frac{3}{4}$ per cent was paid. The next year the dividend was $14\frac{1}{2}$ per cent and the third, in 1784, was for $13\frac{1}{2}$ per cent. During the next quarter of a century the lowest dividend declared was 6 per cent, and the highest $13\frac{1}{2}$ per cent, with an average dividend of 9 6-25 per cent.

The success of the Bank of North America was soon so well recognized, that it inspired the establishment of two other banks, the Massachusetts Bank in March, 1784, and the Bank of New York in June of the same year. An attempt was also made in 1784, to form a rival institution in Philadel-

* Felt, 194.

† Goddard, 49.

‡ Quoted by Sumner, F. & F's of Rev., II., 33, from Ford MSS., II., 3.

§ Paine, Political Writings, 395 and 396.

|| Peletiah Webster, Essays, 434.

¶ A list of the dividends of the Bank of North America from 1782 to 1800 inclusive, is given in the appendix to Lewis.

phia, but the directors of the Bank of North America skillfully averted its establishment by throwing open to subscriptions 1000 new shares of stock at \$400 a share, the price at which the first shares were sold, thus silencing the agitation for a second bank by giving the projectors stock in the established institution upon exceedingly favorable terms.*

Although there is abundant evidence that the bank proved a profitable venture from the start, very little detailed information can be found concerning the nature and extent of its early operations. In the absence of any published bank statements for this early period, we must rely largely upon our general knowledge of the bank and upon occasional references to its business by contemporaneous writers. Peletiah Webster wrote in his "Essay on Credit", that "the funds or wealth of the bank consisted in, 1st., the bank stock, about 900,000 Mexican dollars; 2d., the discounted bills now in the bank and payable to it; 3d., the Cash deposited in the bank for safe keeping, and which the owners may draw out whenever they please; 4th., the furniture and utensils of the bank, and any small profits which may have lain over or arisen since the last dividend," and that "the debts of the bank to be paid out of their stock are, 1st., All the bank-bills now in circulation; 2d., All the bank credits or balances due to such persons who have deposits in the bank."† He says also that its cash account was in one year from January 1st., 1784, to January 1st., 1785, almost \$59,570,000 Mexican dollars.‡

We have already pointed out the general nature of the business carried on by the Bank of North America. The quotations from Webster give additional proofs that the bank was actually from the beginning a bank of deposit and discount, and also give some idea of the extent of its operations. We know that as early as February, 1784, its business had increased so much that it was deemed necessary to increase its capital stock to \$900,000, and that it was further increased within a month to prevent the establishment of a rival bank in Philadelphia.§ We know also that the bank must necessarily have conducted an extensive business in

* Lewis, 51-53.

† Essays, 449.

‡ Ibid, 447.

§ Lewis, 51-53.

order to declare such large dividends, for its profits were chiefly derived from loans and discounts, and the rate of discount was limited so as not to exceed six per cent.

The Bank of North America was, as we have seen, the first Commercial Bank in the United States, but it was not long before other banks arose in imitation, the first, as already mentioned, being the Massachusetts Bank established in Boston in 1784.* Very little information is accessible concerning the origin and early history of this bank. It was directly inspired by the example of the Bank of North America, and probably conducted its business in much the same way.† Felt notes that the legislature granted the petition for the Massachusetts Bank, "having watched the proceedings of the North American Bank, and convinced of its being decidedly useful to the community."‡ The amount of property which the bank might own was limited to 550,000 pounds.§ Another condition of the charter was that the Legislature should have the right to examine its affairs.|| Among the first rules of the bank were that no renewals would be made, and that the name of delinquents should be posted in the bank to avoid useless applications for credit,¶ and in 1792, the Legislature restricted the amount of loans and notes outstanding to double the amount of "the capital stock in gold and silver actually deposited in the bank," ° all of which shows that from the beginning it operated as a bank of deposit and discount.

The next bank to be established was the Bank of New York,** and it too, was modeled after the Bank of North America. The petition for a bank met with opposition in the

* On January 1st., 1784, a notice appeared in the Independent Chronicle and the Universal Advertiser (Boston) stating that a plan for a bank had been proposed and that subscriptions for the same would be received at a specified place. The Bank was organized on March 18th., 1784.

† "Yours of the 5th. inst. reached my hands this day, and in answer thereto I must beg leave to inform you, that the success of the Bank of North America hitherto has exceeded our most sanguine expectations * * * We have been written to by the gentlemen concerned in the Intended Boston Bank and our directors have returned the most friendly answers to their queries" etc. (Extract of a letter written in Philadelphia, Jan. 27th., 1784, which appeared in the "Salam Gazette," March 18th., 1784, and also in the "American Herald" and The General Advertiser (Boston) March 8th., 1784.

‡ Felt, 199.

§ Ibid.

¶ White, 313.

|| Sumner, History, 19.

° Referred to by White, 313.

** The statements concerning the Bank of New York are taken from Domett's History of the Bank of New York unless otherwise stated.

Legislature, but the mercantile community was so desirous of obtaining a bank in New York, that it was thought best not to await legislation, and accordingly, the bank began business without a charter on June 9th., 1784, with a capital stock of \$500,000. Not only was the general plan of the Bank of New York the same as that of the Bank of North America, but the business methods adopted were also similar; Mr. Seton, the first cashier going to Philadelphia for the special purpose of procuring information from the officers of the Bank of North America. The Bank began immediately to receive deposits and to discount commercial paper. Among the first rules adopted were that "Discounts will be done on Thursday in every week, and bills and notes brought for discount must be left at the bank on Wednesday morning, under sealed cover, directed to William Seton, Cashier. But no discount will be made for longer than thirty days, nor will any note be discounted to pay a former one," etc., and that "money lodged at the bank may be withdrawn at pleasure, free of expense; but no draft will be paid beyond the balance of the account."*

The Bank of New York was from the first successful, and although the opponents of the bank succeeded in defeating the application to the Legislature for a charter until 1791, its business steadily increased in spite of the opposition, so that it was enabled to pay semi-annual dividends of 3 per cent from November 1st., 1785, until November 1788, when the dividend was increased to $3\frac{1}{2}$ per cent for the previous six months.†

* Quoted by Domett, 19 & 20.

† After a state issue in 1786, the directors of the Bank of New York kept two sets of accounts, in fact organizing two banks, a "specie bank" and a "Paper Bank," the latter doing business on state paper, and using the denomination pounds. (Sumner, Hist., 19). Following is a statement taken from Domett pp. 37 & 38, of the assets and liabilities of the bank at the time it commenced business under the charter, May 1st, 1791. It gives some idea of the extent of its business at that time.

SPECIE BANK.

Bills discounted	\$845,940.20	
Due from Corporation....	12,222.44	
Cash	\$516,081.87	
Less notes on hand.....	53,266.00	\$462,815.87
		<hr/>
		\$1,320,978.51
Capital Stock		\$318,250.00
Notes outstanding		181,254.00
Due Depositors		773,709.67
Profit & Loss		47,764.84
		<hr/>
		\$1,320,978.51

This bank, as well as the first two banks established, is still in existence. It was re-organized under the National Banking system on July 6th., 1865, the Secretary of the Treasury permitting the former title to be retained, with the addition of the word "National."

Other banks followed at first very slowly, for reasons that will be explained hereafter. In the last decade of the century a rapid growth of banking institutions began, so that by 1802, there were thirty-three banks in the United States engaged in discounting notes and bills of exchange.* In the year 1780, Peletiah Webster estimated that the whole circulating specie in the country did not much exceed ten million dollars.† After banks were established they began immediately to exert a strong influence upon the circulating medium, and to take an active part in commercial operations. In 1802, it was estimated by Noah Webster that there was specie in the vaults of the banks amounting to twenty-three million dollars representing notes outstanding; and that there were twelve million dollars on the books of the banks to the credit of merchants.‡

PAPER BANK.			
House & Lot			
Queen St.		£ 5,248,- 4,- 9	
Cash	£115,373,-17-11		
Notes on hand.....	£ 25,605	£89,768,-17,-11	
		<u>£95,017,- 2,- 8</u>	
Notes out.....			£71,822-0-0
Due Dep.			£16,920-0-0
Pr. & Loss.....			£ 6,275-2-4
			<u>£95,017-2-8</u>

* Noah Webster, "Banks."

† 5th. Essay on Finance.

‡ Noah Webster, Banks.

III.

CAUSES FOR THE TARDY RISE OF BANKING
INSTITUTIONS.

We have seen that up to the year 1781, no commercial bank had been formed in the Colonies, and that after a beginning was made in 1781, other banks sprang up in imitation so that by 1802, there were thirty-three banks doing business in the United States.

Commercial banking was known and practiced in Europe long before its introduction into America. The Colonial financiers were not unacquainted with European banking, so that ignorance of commercial banking and its advantages, can not explain its tardy appearance in this country. It is necessary to seek some other explanation and this explanation is to be found in the peculiar conditions of colonial trade and industry.

America was, throughout the whole colonial period, predominantly an agricultural community, and one of small, self-sufficient household industries. Franklin wrote, during the Confederation, that the great business of the continent was agriculture, and that for one artisan or merchant, there were at least one hundred farmers, by far the greatest part cultivators of their own fertile lands, from which they drew not only food necessary for their subsistence, but the materials for their clothing so as to need very few foreign supplies.* Food, clothing, fuel, light and shelter were provided on every farm, and each member of the family from the old grandmother to the child of four or five years of age had his part to perform in this home manufacture.

These industries were in high repute throughout the Colonies, and were engaged in by the rich farmer as well as by the poor, although the wealthy and fashionable had a great liking for wearing apparel of English manufacture.

* Franklin, Works, III., 393; See also Adam Smith, Book II., Ch. V.

Every farmer and his sons raised wool and flax, performed the heavy labor, and made and kept in working order the various tools and implements necessary to convert those materials into clothing. The wife and daughters did the lighter and more dextrous work. They took the wool and flax and carded and spun them into yarn and thread. These they knit into mittens and stockings, or wove them into cloth and then made them into clothing. The culture of flax, the raising of sheep and the manufacture of wool were encouraged in every way possible, and contests in knitting, spinning and weaving were often held, where prizes were given for the quickest and best work. The skill often attained seems remarkable now, at a time when household manufacture has become almost a lost art. Alice Morse Earle tells of one instance where the sheep were sheared, and a complete suit of clothes made in less than a week.* Another case mentioned in her book also shows how quickly and well this domestic system supplied the demands of the time,—“Nancy Peabody’s brother of Shelburne, New Hampshire, came home one night and said that he had lost his mittens while chopping in the woods. Nancy ran to a bundle of wool in the garret, carded and spun a great hank of yarn that night. It was soaked and scoured the next morning, and in twenty-four hours from the time the brother announced his loss, he had a fine new pair of double mittens.”†

This system of home manufacture grew from small beginnings, and gradually developed in response to the necessities as they arose. In 1705 Lord Cornbury wrote home from New York that he “had seen serge made upon Long Island, that any man might wear; they make a very good linen for common use, and as for woolen, I think they have brought that too to great perfection.”‡ By the time of the war these self-supporting industries extended throughout the whole country and each home contained within itself “almost all the original and necessary arts.”§

Under such conditions of industry, operations were so limited and of so simple a nature that very little circulating

* Earle, 202.

† Ibid. 262.

‡ Quoted in Earle, 191.

§ Bishop I., 415; Weedon II., 805.

capital was necessary. From the beginning when assistance was required to carry on their small affairs, neighbors and friends usually furnished each other with the necessary loans and discounts. Gouge says that before the establishment of banks, "Men of reputation found but little difficulty in borrowing as much money as was wanted. The country capitalists did not then purchase bank stock with their surplus funds, but lent them to their industrious neighbors for long periods. Little risk attended this mode of lending, and it was mutually beneficial to the parties concerned."*

As the population of the Colonies increased and it became more difficult to know readily who wished to borrow and who had money to loan, the needs of borrowers and lenders were still supplied without the assistance of banks. The newspaper was the customary agency through which their needs were made known. "A certain person has occasion to borrow One thousand pounds O. T.", reads one advertisement in 1753, "& can give good land security for the same. Any one who has the same to lend, is desired to inform the printer of this paper," etc.† Another advertisement in 1750, gives notice that any one who has one or two hundred pounds to lend out on security, may hear of a person for it at the Post Office,‡ and in 1768, a Peter Thompson of Philadelphia advertises for one Hundred pounds on interest, for which good security will be given.§ Advertisements such as the foregoing, were common in the Colonial newspapers from 1750 to 1800, and indicate that borrowers and lenders chiefly resorted to the newspapers to make known their wants. After carefully examining the files of the leading newspapers of Boston, New York, and Philadelphia during this period, we find only one case where anyone makes it a part of his business to act as an agent in securing and making loans. On June 5th., and June 8th., in 1769, John Coghill Knapp, of New York, advertises in the New York Chronicle that cash was "often to be had on approved real and personal security to discount good bonds, bills, or notes, and on bottomry", and from September 21st., to the 28th., in the same year he advertises

* Gouge II., 25; See also Lewis, I.

† Boston Gazette, April 10th., 1753. A similarly worded advertisement for One Hundred Pounds, appears in the Boston Gazette, March 18th., 1755.

‡ Pennsylvania Gazette, July 5th., 1750.

§ Pennsylvania Gazette, Nov. 14th., 1768.

that "the sum of £1000 and the sum of £800 to be lent out on good real or personal security in or about the City; also a considerable sum ready to discount goods, bonds, bills or notes, and on Bottomry; cash solicited on every to be approved security as usual."* Knapp was a real estate lawyer and also did a general law business. His advertisements show that he also evidently made it a business to act as an agent in making and securing loans, but nothing would indicate that he conducted a commercial banking business, or received money to be loaned except as an agent under the direction of his clients.

Before 1760, America developed wholly along agricultural lines. Up to that time and even as late as the war, nearly all their manufactures were imported from England, and there were no manufacturing establishments in the Colonies of enough importance to require much capital or banking facilities. "It has been the principal cause of the rapid progress of our American Colonies towards wealth and greatness," says Adam Smith, "that almost their whole capitals have been hitherto employed in agriculture. They have no manufactures, those household and coarser manufactures excepted which necessarily accompany the progress of agriculture, and which are the work of the women and children in every private family."† The absence of manufacturing even in its rudimentary forms was especially a marked characteristic in the Southern Colonies.‡ In 1767, the Lower House of Virginia in a message to the governor said, "Your excellency may well report, from your own sight and knowledge that the inhabitants of the province from the first to the lowest rank, are generally clothed in British manufacture, and it is very generally known, that nothing has been set up in this province which deserves the name of a manufactory."§ Kalm, the well known Swedish traveler, wrote of the Colonies in 1750 that "no manufactures of note have yet been established here; at present they get all their manufactured goods such as woolen and linen cloth, etc., from England, and especially

* New York Chronicle.

† Adam Smith, Book II., Ch. V.

‡ "In that part of the United States situated south of Pennsylvania there are no manufactures whatever." W. C. Ford, report on trade of 1791, p. 29—Quoted in Beer, page 72.

§ Quoted in Scharf, 579.

from London,"* and Burnaby, an Englishman who visited this country ten years later, said that their manufactures were "Very inconsiderable and nothing to deserve attention."† Burnaby also made note of the fact that the Southern Colonies were particularly lacking in this respect. "The Virginians," he said, "are content if they can but live from day to day. They confine themselves almost entirely to the cultivation of tobacco, and if they have but enough of this to pay their merchants in London, and to provide for their pleasure, they are satisfied and desire nothing more."‡

Attempts were made from time to time (especially after the middle of the eighteenth century) to establish manufactures in the Colonies but the difficulties always proved too great, and but little success was realized. America remained up to the time of the Revolution, predominantly agricultural, with no capital devoted in any large measure to manufacturing, in the modern sense of the term. This condition of Colonial industry has such an important bearing upon the main question under consideration that it is necessary to inquire to some extent into the cause of the absence of manufactures.

Manufactures did not arise in the Colonies principally because the natural conditions psychically, industrially and economically worked against their establishment. The Colonists were immoderately fond of British manufactures. So long as the relations with the mother country were unruffled, the height of fashion was to ape English customs and manners and to import their clothing and superfluities from England.§ The farmers and the people of the poorer classes were, it is true, almost universally clothed in homespun and materials of home manufacture, but the American dress among the wealthier classes, was carefully modelled upon European and especially upon English modes. The Governor, with his staff and attendant officials, formed a miniature court in the province, and its influence spread through all the settlements. The customs and styles of the colonists were also shaped to a large extent by the influence of the

* Kalm's Travels, 459.

† Burnaby, 712.

‡ Burnaby, 717.

§ Franklin, Works, III., 150.

mother country working through intercourse or correspondence.* English fashion papers had a large circulation in the Colonies, and fashion plates and imported dolls dressed in the latest styles, were exhibited in the shop windows of Boston and the larger cities.

The wealthier families in the Colonies imported nearly all their wearing apparel, and boxes of splendid clothing were brought by every sailing vessel that came from England. Hancock was perhaps the most particular of the Colonial gentlemen about his personal appearance and dress. His letter book shows him ordering goods from his London agents with very careful instructions, such as two wigs for his own use, "fashionable and of a light color," and articles for family use "Very neat," and "of the very best kind, cost what it will",† and it is recorded that he was seen at noon-day wearing a scarlet velvet cap, a blue damask gown lined with velvet, white satin embroidered waist-coat, black satin small-clothes, white silk stockings and red morocco slippers.‡ Washington was also very exacting about his dress, and his orders for clothing show that he wore wigs, laces and ruffles, and the richest of silks and velvets, all imported from Europe.§

This fondness for English goods acted as a great drawback to the establishment of Colonial manufactures on any large scale. The Colonists, furthermore, preferred to be engaged in agriculture, because they could then be independent and their own masters. Adam Smith makes note of this feeling of prejudice against manufactures in the Colonies. He says that an artificer feels that he, "Is the servant of his customers, from whom he derives his subsistence, but that a planter who cultivates his own land and derives his necessary subsistence from the labor of his own family is really a master, and independent of all the world."||

Although there were no social distinctions recognized by law, different classes were formed in the Colonies and social distinctions sharply drawn on the basis of fortune, and the nature of professions. Liancourt observed that the mer-

* Weeden, 533 et seq; See also Earle, chapter on dress.

† Hancock's letters in Brown.

‡ Earle, 293.

§ See Washington's writings, and Ford, *The True George Washington*.

|| Adam Smith, Book III., Ch. II; See also Liancourt, 151.

chants, the lawyer, the physician, the clergy and the land owners who did not cultivate the land themselves, formed the first class, the second class included the inferior merchants, the farmers, and the artisans, and the third class was composed of workmen who let themselves out for hire. He said that as soon as possible every one became independent.* Dr. Douglass made a similar classification and added, that "The second sort is generally our case."† The landed proprietor or country gentleman occupied the most enviable position in the community, and with that ideal in view, every dependent person strove to become independent as soon as possible. This social prejudice against dependent occupations, and the fact that the population was small and the capital limited, the amount of land large and easy to acquire, and the unit of labor economically far more productive in agriculture, made it almost impossible for manufactures to arise.‡

Rice and tobacco, the staple products of the Southern Colonies, were not extensively grown in Europe, and the Southern planters found a ready market for all they could produce. The production of these staples in the Colonies was encouraged in every way possible by Great Britain. Their importation was free and unhampered so that the southern products could be directly exchanged for English manufactured goods. The encouragement by England of tobacco culture in the colonies began very early, for about the year 1624 the trade in tobacco became a royal monopoly, and soon afterwards an act of Parliament prohibited the planting of it in Great Britain.§ Not only was every possible encouragement given for the production of these staples in the South, but the natural conditions of the soil and climate were favorable for their growth, and the network of rivers made their transportation most easy.|| Thus it is seen that in the Southern Colonies, agriculture was economically the most profitable employment.

The conditions were not so favorable to agriculture in the Northern Colonies. Their products entered largely into competition with the products of England, and trade restric-

* Liancourt, 169.

† Douglass, Summary, 206.

‡ Beer, "The Commercial Policy of England Toward the American Colonies" treats fully of the conditions preventing the rise of manufactures. Pitkin, 127.

Beer, 73.

tions prevented to a large extent a direct exchange for manufactured goods. They were, however, able up to the period of rigid trade restrictions beginning about 1760, to dispose of their products, and to procure manufactures by carrying on a roundabout trade, and there, as in the South, it was an economic loss to engage in manufacture.*

Manufactured goods could be imported from England much cheaper than they could be produced in the Colonies.† The lack of capital and the scarcity of workmen were the chief obstacles.‡ In 1764, Lieutenant Governor Colden of New York wrote to the Lords of Trade in England that, "The high price of labor makes it impracticable in the Colonies to interfere with the manufactures of Great Britain,"§ and even as late as the close of the century, Liancourt observed that certain manufacturers then established, were threatened with great loss on account of the scarcity of workmen.|| Some of the most far-seeing minds in the Colonies realized that this economic dependence of Great Britain was not to their advantage. Franklin, for example, in his testimony before the House of Commons in 1766, admitted that goods could be brought more cheaply from England, but said that it was to the interest of the Colonies to make everything.¶ Repeated attempts were made to set up manufactures in the Colonies, and to divert the attention from agriculture. In Virginia for instance, restrictions were placed on the export of tobacco, for the purpose of directing the planters to the production of the necessary commodities, by making the tobacco trade unprofitable.*

In spite of these drawbacks, manufacturing would undoubtedly have gained some foothold in the Colonies, had it not been for the rigid laws of Great Britain forbidding them to manufacture for themselves, and forcing upon them their own manufactured goods. The mercantile system represented

* See Beer, Chaps. VI., & VII.

† "The high price of labor in general in America, rendered it impracticable for the people there to manufacture their linen cloth at less than 20 per cent more than the rate in England, or woolen cloth at less than 50 per cent dearer than that which is exported from home for sale." Report of Feb. 15th., 1732, of the Board of Trade and Plantations. Quoted, Pitkin, 5.

‡ Hutchinson, Vol. II., 447; Burnaby, Travels, 445; Bishop, I., 323.

§ N. Y. Documents, VII, 612.

|| Liancourt, II., 312.

¶ Franklin III, 265.

° Ripley, 61; also see Pitkin.

the prevalent form of economic thought in Europe during the greater part of the 17th and 18th centuries. It exercised a dominant influence upon the practical statesmanship of England until the lucid and convincing doctrines of Adam Smith began to bear fruit at the close of the eighteenth century. In accordance with this system the aim of the English statesman was to secure for Great Britain a balance of trade as favorable as possible, or in other words to keep the exports larger than the imports, so that the amount of specie in the country would increase. Manufacturing was becoming an important industry of Great Britain, and one of the most effective methods of bringing in specie was to increase the consumption of English goods abroad. Consequently, the central purpose of the commercial legislation during this period, was the development of markets, and especially of a Colonial market, for English manufactures.

As early as 1650, this purpose becomes evident. The navigation act of 1650, and its extension in 1661 and 1663, provided among other things, that the Colonies should not be allowed to purchase in any but the British markets, any manufactured article which England had to sell.* It was, however, not sufficient to compel the Colonies to import manufactures only from England, for if the Colonists were allowed to manufacture for themselves they would cease to consume English goods, and a valuable market would thus be destroyed. The Colonists were therefore restrained in every way possible from manufacturing on their own account. They were on the other hand encouraged in the production of raw materials in order that the English manufacturer might obtain his raw materials in exchange for manufactured goods instead of by the payment of specie.

In 1696, Parliament created the Board of the Lords of Trade and Plantations for the purpose of exercising a general oversight over the Colonies, of making them more useful and beneficial to England, and of suppressing industries which might prove detrimental to her interests.† To this board the Governors of the different Colonies were directed to make careful reports from time to time on the conditions of the

* The first Century of the Republic, 157; See also Beer.

† Bancroft, II., 73; Hildreth, II, 197.

Colonial manufactures in order that they might be effectually destroyed. From this time to the close of the Colonial period the rise of manufactures in the Colonies was watched with jealous eyes and regulated by the most stringent laws. The House of Commons declared in 1719, that the erecting of manufactories in the Colonies tended to lessen their dependence upon Great Britain.* It is also interesting that Adam Smith asserted as a fact that the English merchants and manufacturers engaged in the Colonial trade were the principal advisors of the greater part of the regulations concerning that trade.†

The first notable regulation was that upon the manufacture of woollens. In 1699, Parliament enacted that no wool, yarns, cloth, or woollens of American manufacture should be shipped from the Colonies, or even laden in order to be transported from thence to any place whatsoever, under very severe penalties, and it was directed that the Governor of the plantations and the officers of the Customs and Revenue should see that the act was duly executed.‡ Another act was directed against the manufacture of hats, an industry for which the Northern Colonies showed an early aptitude. Through the influence of the hatters of London, an act was passed providing that hats could be manufactured in the Colonies only by those who had served an apprenticeship for 7 years, limiting the number of apprentices in the trade, and forbidding the exportation of hats not only to foreign countries, but even their transportation from one plantation to another.§ Other acts forbade the erection of steel furnaces, rolling mills, etc. An act of 1750, stated clearly the purpose of these later acts by declaring expressly, that it was intended to encourage the importation of American bar and pig iron and that Great Britain was to be benefited by the exchange of her "woolen and other manufactures" for the bars and pigs imported.|| To such an extent was the regulation of Colonial industry carried that the Colonists were not even permitted to dig for gold or silver unless they sent them immediately to England.¶ In

* Scharf, I., 519.

† Adam Smith, Book IV., Ch. VII.

‡ Scharf, I., 519; Bishop I., 327.

§ Scharf, I., 519; Adam Smith, Book IV., Ch. VII; Pitkin, 11.

|| Weeden, II., 684.

¶ Kalm, 461.

this way, every rising manufacture in the Colonies became the object of regulation and restriction, and its development to any large proportions effectively prevented.

The conditions and results under this policy are succinctly stated by Adam Smith. He says that England "would not suffer her Colonies to work in those more refined manufactures even for their own consumption, but insists on the purchasing of her merchants and manufacturers all goods of this kind they have occasion for" and further, in considering the regulations concerning the transportation of hats, wools and woollen goods he says, "A regulation which effectually prevents the establishment of any manufacture of such commodities for distant sale, and confines the industries of her Colonies in this way to such coarse and household manufactures, as a private family commonly makes for its own use or for some of its neighbors in the same province."*

The fact that the country was predominantly agricultural, with no manufactures in the modern sense of the term, the manufactured goods being supplied by England, and by a widespread system of self-supporting domestic industries not requiring a large circulating capital and banking accommodations, explains but yet does not fully explain the tardy rise of banking in the Colonies. These manufactured goods had to be bought, imported, and sold in the Colonies. There were large merchants and retailers carrying on this business and a vast amount of capital must have been employed. It is inconceivable to suppose that this branch of industry could have been conducted without the aid of borrowed capital and banking facilities. There was no bank of discount and deposit in America before 1781. The interesting question arises, how was this business carried on? Adam Smith gives some light upon this when he says of New Colonies and of the Colonies in America in particular, "They have constant demand [therefore] for more capital than they have of their own; and in order to supply the deficiency of their own, they endeavor to borrow as much as they can of the mother country, to whom they are therefore always in debt. The most common way in which the Colonies contract this debt, is not by borrowing upon the bond of the rich people in the mother coun-

* Adam Smith, Book IV., Ch. VII.

try, though they sometimes do this too, but by running as much in arrear to their correspondents, who supply them with goods from Europe, as those correspondents will allow them."*

Thomas Hutchinson, the historian of Massachusetts Bay, calls attention with more detail to the assistance of English capital. "Until within 30 or 40 years past," he says, "merchants and manufacturers in England shipped goods on their own accounts which were sold here upon commission, and though there was appearance of profit on the sales, yet, by the loss upon returns most adventurers in a course of years were great losers. The trade is now (1749) upon a more certain footing for the people of England. Few goods are sent to be sold upon commission. The manufacturer depends upon the merchant of England for his pay. The merchant receives his commission and generally agrees with his correspondent, for whom he is in advance, in the Colonies, that after six or nine months' credit, if payment be not made, interest shall be allowed."†

This evidence shows beyond doubt that English capital supplied in part the deficiency in the Colonies, and that their retail trade was to some extent conducted on credit obtained in England. In order, however, to ascertain the influence of these forces on the rise of banking in the Colonies it is necessary to know the extent to which trade was carried on by their aid, and the exact manner in which they were obtained. The English merchants were the only ones who gave extensive credit to the Colonists,‡ and most of the goods imported were, as we have seen, of English manufacture. If we know the relation of the colonial merchants with the merchants of England, we know the extent and nature of their foreign connections.

In the early history of the colonies, the mode of living was of the plainest, and their industries were limited to agriculture, fishing, and the household manufacture of a few of the coarsest articles necessary for existence. Those things which the colonists could not get along without and could not produce for themselves, they imported from England. At

* Adam Smith, Book IV., Ch. VII.

† Hutchinson, II., 444.

‡ Baring, 55; Weeden, II, 818.

first this trade was very small, and of little value to the English manufacturer and merchant, but as the colonists grew in wealth and numbers, the capital of England was more and more turned to the Colony trade, so that by the time of Adam Smith all other branches of trade suffered in consequence,* and in the words of that illustrious economist and shrewd observer, Great Britain resembled, "one of those unwholesome bodies in which some of the vital parts are overgrown, and which upon that account are liable to many dangerous disorders, scarce incident to those in which all parts are more properly proportioned."† To such an extent were the merchants of England dependent on this trade that they had a constant fear of disruption with the Colonies, and the expectation of a rupture, "struck the people of Great Britain with more terror than they ever felt for a Spanish Armada or a French Invasion."‡

It is impossible to ascertain the exact amount of imports into the Colonies, but English export statistics and the estimates made by men of the time give a fair idea of the amount. In 1704, the exports from England to North America and to the West Indies amounted to only £483,265, and in the year 1772, the exports to North America and the West Indies amounted to 4,791,734 pounds.§ At the beginning of the eighteenth century another estimate places the British manufactures and European merchandise, annually received from England, as amounting to nearly four hundred thousand pounds sterling, and towards the close of the Colonial period to three million and a half sterling,|| which was nearly one-fourth of the English export trade at those periods.¶ Franklin, in his testimony before the House of Commons in 1766, estimated the imports of British manufacture into Pennsylvania alone, at 500,000 pounds sterling.°

This extensive business was carried on almost wholly on credit. The goods were in most cases imported and sold before returns were made to the English merchants. Up to the beginning of the 18th century, before the trade began to

* Adam Smith, Book IV., Ch. VII.

† Ibid.

‡ Ibid.

§ Ibid.

|| Burke's Conciliation with the Colonies.

¶ Bishop, I., 128.

° Bishop, I., 89.

Franklin, Works, III., 250.

assume large proportions, the goods were, as has been shown, shipped here by the merchants and manufacturers and sold for them upon commission, but by the middle of the century, the manner of trade had changed, and few goods were sold upon commission. The manufacturer in England looked to the English merchant for his pay, and the English merchant sold the goods on credit to the merchant in the Colonies. After six or nine months if the goods were not paid for, interest was allowed.* Very long credits were often given.† "Their annual returns," says Adam Smith, referring to the Colonial merchants, "do not amount to a third and sometimes not so great a proportion of what they owe. The whole capital which their correspondents advance to them is seldom returned to Britain in less than three, and sometimes in not less than four and five years."‡ Although the English merchants attempted to exercise great care and judgment in their advances to the Colonists, the severe competition in the Colony trade, made an eagerness in that trade which often resulted in the creation of bad debts.§ As late as the middle of the 18th century Hutchinson was, however, of the opinion that bad debts were not more frequent in the Colonies than among the like number of traders in England.|| The leading merchants in the Colonies such as Peter Faneuil and John Hancock of Boston, got very large credit on goods purchased and were usually very prompt in payment.¶

The large and well known merchants also often recommended for credit smaller merchants in whom they were interested.° Not only was it possible for the large and established merchants and those recommended by them to get easy credit on goods purchased, but many of the English merchants encouraged this indebtedness, to assure the continuance of their customers, and to give them certain advantages in their dealings with them, and gave credit to the small merchants, and even directly to the planters themselves, much to the

* Hancock made constant complaints to his London agents on account of interest charged. He maintained that his extensive business operations warranted better treatment. See letters in Brown, Chap. XIV.

† See Baring; Bruce; Weeden.
Adam Smith, Book IV., Ch. VII.

‡ Ibid.

§ Hutchinson, II, 444.

|| Weeden, II, 617; Brown.

¶ See Brown, 52.

discomfiture of their larger customers.* In looking over John Hancock's letters, we find him often remonstrating with his London agents for giving such extensive credit to all who apply. He frequently reminds them that he is "a man of capital" whose business is of great value to them, and he complains that his competitors, "Men of no capital" receive equal credits and favors with himself, much to the injury of his trade.†

The Colony trade was conducted so largely on credit, that the Colonial merchants, and the English merchants engaged in the Colony trade, came to be absolutely dependent on each other for existence. At the time of the passage of the Stamp Act the debts to the English merchants amounted to several million pounds sterling for goods delivered.‡ which the American merchants absolutely refused to pay, pleading as an excuse their inability, which plea the English merchants admitted as reasonable.§ The enforcement of the Stamp Act brought about a suspension of trade, and petitions were presented to Parliament from all parts of England, stating that unless Parliament speedily retraced its steps, multitudes of English manufacturers and merchants would be reduced to bankruptcy. Glasgow complained that the Stamp Act meant ruin to them, since its trade was principally with America, and not less than half a million of money was due from the colonists of Maryland and Virginia alone to Glasgow merchants.|| It was the opinion in England that the distress was felt more keenly there, than in America, for the colonial warehouses were filled with British goods for which they had not paid, and their general resources were so varied, that they were better able, it was believed, to stand a suspension of trade.¶

The colonists were, however, equally dependent on the English merchants. Governor Pownall in 1764, wrote that England need have no fear of a revolt of the Colonies, for their merchants were and ever must be, in a great measure allied with those of Great Britain, since their very support

* Ripley, 122.

† See letters in Brown.

‡ Franklin's Works, III., 720; Lecky, III., 333-34.

§ Dodsley's Annual Register, 1766.

|| Lecky, III., 333-34.

¶ Dodsley's Annual Register, 1766.

consisted in this alliance,* and Gov. Bernard wrote to the Lords of Trade in 1764, that the orders for strict enforcement of the trade regulations "has caused a greater alarm in this country than the taking of Fort William Henry did in 1757."† It is clear therefore, that with the exception of the agricultural and the domestic systems, the industries of the colonies were conducted to a very large extent on foreign capital. Not only were long credits given on goods imported, but in many cases, especially in the South, the warehouses, and even the stores in which these goods were sold, were the property of English merchants.‡ In many cases also, the goods were imported and sold by English merchants or their factors in person, who remained in the Colonies in order to be prepared at the proper time to take possession of the planter's crops, if prompt payment were not made.§ These conditions lessened the necessity in the Colonies of making the best and most systematic use of their own limited capital, and thus removed one of the most effective stimuli for the growth of banking institutions.

These conditions do not, however, fully explain the complete absence of banking institutions, for although by far the greater part of the Colonial imports came from England, still, in the later Colonial period especially, not an inconsiderable amount came from other European countries and from the West Indies.|| This trade would sooner or later, have demanded banking facilities in the Colonies, but here also, as in the purely British trade, the watchful paternalism of the English merchants served to retard the establishment of banks. The English merchants acted as commission merchants and as bankers for the trade generally. They received consignments from the Colonists and disposed of them on commission. They also received the proceeds of consignments to all parts of the world, and paid the drafts on bills drawn by their Colonial correspondents to the order of the British merchants and Colonial creditors elsewhere.¶ Almost

* Pownall, 25.

† Bernard's Select Letters, 9.

‡ Adam Smith, book II., Chap. V; Bruce, II., 380.

§ Bruce, II., 332.

|| In 1769, the Colonists imported from Great Britain goods to the value of 1,604,975 pounds sterling; from the South of Europe 76,684 pounds; and from the West Indies, 789,754 pounds. These figures are given by Pitkin, 19, from McPherson's Annals of Commerce III., 571-2.

¶ Bruce II, 337-38; Hancock's letters in Brown; Baring; and Weeden.

every American merchant carried an account with some house in England, preferably in London. All his foreign business passed through their hands and the proceeds of his consignments were deposited to the credit of his account. Drafts on these accounts were often honored far in excess of such a limit, the deficiency being covered on the strength of promises of further consignments or shipments of specie.* These accounts showed some very large credits. In 1736 for example, the mercantile house of Loyd & Lane credited the Faneuils of Boston with one item amounting to £10,104, 3 s. 9 d.† The Faneuils often remitted silver to replenish their account. One shipment amounted to 410 oz.‡ John Hancock's correspondence with his London agents shows very clearly the way a Colonial merchant carried on his business. From this correspondence we find that Hancock often drew bills in excess of his balance, and wrote to his agents to have them honored.§ He also constantly ordered silks, wines, books, etc., from European merchants, and referred the merchants to his London agents for payment.||

The people of the Colonies were so in the habit of looking dependently to the mother country for all kinds of services that not only was the banking for the merchants and business men done in England, but even their insurance was for the most part written there. Several attempts at establishing insurance companies in the Colonies had been made, but they met with little success, and it was evidently thought better to obtain in England the needed insurance on vessels engaged in the trans-atlantic trade.¶ The English merchants also performed to some extent the function of bankers for individuals in the Colonies, as well as for the business houses. These services were rendered indirectly through the Colonial merchants. We have seen that the general operation of the Colonists, were of such a nature, that very little circulating

* Bruce, II., 338.

† Weeden, 74.

Weeden, 74.

Brown, 67, 73, 77, 133.

|| Brown, 80-94, 149. The extent to which these services were rendered by the English merchants is well suggested by an advertisement of foreign newspapers which appeared in the *Pennsylvania Gazette*, March 4th., 1756, as follows: "N. B. It is desired that whosoever may have occasion to give orders for any of the above papers, will for convenience sake be pleased to mention their correspondents in London whom they intend should pay for the same."

¶ See Weeden, II., 616; Brown, 50.

capital was required, and that the financial assistance needed could usually be obtained from neighbors and friends. Their need for ready capital was also greatly lessened by the fact that the Colonial merchants gave long credits on goods purchased.* The advertisements of the merchants announcing new importations show that long credit was common, even though the goods would be sold cheap for "ready money or short credit." Nearly all of these advertisements urge payment from those who are indebted for "above six months" or announce that those indebted for "twelve months are desired to pay without further indulgence."†

The merchants were usually the wealthiest members of the community, and they were looked to, not only for credit on goods, but for small advances of money and other banking services. The merchants were the bankers for the Colonists. One of the arguments used against the establishment of banks, was that the merchants would be deprived of the lawful gains of lending their money.‡ Instead of going to a bank as now, the colonist went to his merchant, who on account of his London Connections, could make his foreign remittances for him, buy and sell bills of exchange, and perform other banking functions. Hancock did quite an extensive banking business, as is shown by his correspondence. On October 12th, 1764, for example, he notified his agents that since September 24th, he had drawn bills on them in favor of several gentlemen, amounting to 3,668 pounds.§

We have now shown the causes retarding the establishment of banking institutions in America. We shall attempt in the next chapter to trace the change of conditions which made the rise and growth of banks necessary.

* Brown; Weeden; Bruce.

† For some typical advertisements see, *The Pennsylvania Gazette*, April 17th., 1760, & Jan 20th., 1763.

‡ McMaster, II, 30.

§ Brown, 48; See also Gouge.

IV.

RISE AND GROWTH OF CONDITIONS DEMANDING
THE ESTABLISHMENT OF BANKS.

We have seen in the last chapter that the conditions of trade and industry in the Colonies did not demand the rise of banking institutions. There were no manufactures requiring extensive capital and banking facilities; the financial aid necessary to carry on the operations under the agricultural and domestic systems was supplied by individuals in the Colonies; the retail trade and the coasting and shipping industries were conducted on English capital; the banking for the merchants was done in England; and colonial merchants, with the aid of their own capital, and their banking connections in England, were able to give to individuals and small traders, the limited banking services and accommodations which they required.

These conditions would probably have continued, and the ultimate rise of banking in America been much longer delayed, had not England, by her persistent and unwise restrictions on their trade, forced the colonies to manufacture for themselves, and to engage in other more extensive industrial operations, thus compelling them to make the best possible use of their own limited and scattered capital at home.

So long as the colonists could dispose of their own products to advantage they were perfectly content to buy all their manufactured goods in England, but when Great Britain little by little closed her markets to all products which competed with home producers,—the very products with which New England and the Middle Colonies would most naturally pay for their manufactures,—and when she by further acts prevented the colonies from carrying on the round-about trade to which they had been driven by these restrictive measures, and which furnished them the means by which they

could still import English manufactures, they had no other recourse than to begin to manufacture for themselves.

The first considerable impetus in the direction of manufactures in the colonies, was during the twenty-five years preceding the establishment of the constitution.* There were no serious attempts to establish manufactures on a large scale before that time.

The policy of Great Britain towards the colonies in America was always to secure to herself the carriage of their produce, to monopolize their raw materials and to furnish them with all the manufactured goods or other imported articles which they consumed. "The only use and advantage of American colonies or West Indian Islands," said Lord Sheffield, "is the monopoly of their consumption and the carriage of their produce."†

We have noted some of the measures employed to secure the monopoly of their consumption, and have seen that until after the middle of the 18th century, these measures were almost wholly successful. The British restrictive measures before 1763, were consistent with the economic doctrines current in England, and although they brought forth great complaints and remonstrances in the colonies, they did not cause any serious breach and the colonists did not, as we have seen, attempt on any large scale to manufacture for themselves.

The navigation acts in so far as they regulated the carrying trade, proved beneficial rather than injurious.‡ They gave an effective encouragement to the ship building and shipping industries in the colonies. The policy of restricting certain "Enumerated commodities" to English markets,§ and the policy of agricultural protection, which closed the English markets to the staple products of the Northern and the middle colonies, although they proved very burdensome, did not prevent the colonies from disposing of their products and

* Bishop, Vol. I.

† Sheffield, Observations; quoted in Pitkin, 2.

‡ See Channing, The Navigation Laws; and Ashley, The Commercial Legislation of England.

§ The policy of enumerating certain commodities which could be shipped only to England and later to points south of Cape Finneesteere was begun in 1650. Such commodities were enumerated as were needed in England and could not be produced there in sufficient quantities. The purpose was to supply England with these products, and to stop trade with those countries which might compete with English manufactures. Nearly all of the enumerated commodities had to pay heavy duties on importation into England. Drawbacks were allowed on re-exportation. See Beer, and Pitkin.

importing British manufactures. When the markets of Great Britain were closed, either absolutely or by prohibitory duties, to nearly all the products which the New England colonies, and to a large extent the Middle Colonies, naturally and most easily produced,* they were forced to seek a middle market. This market was found chiefly in the West Indies, where the colonists exported cattle, horses, lumber, fish, and agricultural products, and received in return mainly sugar, molasses, rum, indigo and specie. With these products and the specie obtained, the colonists paid for their manufactures. The balance in this trade was favorable to the colonies and specie continually flowed in, only to be sent almost immediately to England. Often the products received in the West Indies were not brought to the colonies at all but were taken directly to England and exchanged for manufactures. "By this trade," it was said in 1731, "the Northern colonies are enabled to make such considerable remittances to England in ready money as they could procure nowhere else but by their traffic with the foreign colonies, as well as by indigo, cacao, sugar and rum, both from British and foreign colonies in the West Indies, for enabling them to pay for the great quantities of our manufactures which they yearly take of us."†

At first this trade was chiefly with the British West Indies, but as the colonies grew in wealth and population, this market became too narrow and a lucrative trade sprang up with the foreign islands. This trade aroused the jealousy of the British West India planters, and their dissatisfaction over the increase of the foreign West India trade with the American colonies, and the diminution of their own, finally gave rise to an act by Parliament‡ in 1733, placing a prohibitory duty on rum, molasses and sugar imported into any of the British plantations in America, from foreign sugar colonies. If this act had been rigidly enforced it would have been impossible for the Northern colonies to continue buying British manufactures, and they would have been obliged to

* Prohibitory duties were levied on agricultural products such as wheat, oats, rye, barley, peas and beans. Discriminating duties discouraged the whale fisheries of New England, and the importation of salt provisions including beef, pork, bacon, and butter was absolutely prohibited. Beer, 74.

† McPherson, III., 175; quoted in Beer, 108.

‡ 6 Geo. II, C., 13.

manufacture for themselves. The authorities in the colonies soon recognized that the enforcement of this act was impossible and it remained up to 1764, practically of no effect. Governor Bernard admitted this in rather guarded language, when he wrote to the Lords of Trade in 1763, that "The molasses act * * * I presume has never been duly executed,"* and Bishop says that "It was only by an evasion or relaxation of the laws of trade, which was connived at by the Revenue officials, that the colonies were ever enabled to pay for the enormous amount of British manufactures and European merchandise annually received from England."† Under this connivance by the authorities, smuggling was engaged in by all, even by some of the best men of the colonies, and the act remained practically a "dead letter."‡ Thus, through the nature or non-enforcement of the acts themselves, or by the colonies finding external means of overcoming the difficulties, the restrictive measures up to the sixties did not break off trade relations with the colonies.

At the close of the Seven Years War, in 1763, a radical change of policy was inaugurated, which made continued trade relations with England impossible and finally also led to a political separation from the mother country. England's debt had been greatly increased by the late war, the debt being partly incurred on account of the colonies. It was also realized that the work of protection would in the future be more expensive, and it was thought only just and proper that the colonies should help bear the burden.§ Consequently it was determined to enforce strictly the existing trade relations, and to raise a revenue in the colonies from the molasses act, and other measures to be enacted.¶

It is unnecessary to rehearse with any detail, the provisions of these acts which are so familiar to every student of American history. The middle markets were destroyed by the enactment of the Sugar Act which lowered the prohibitive duties of the molasses act, and made it perpetual|| and placed heavy duties and prohibitions on many other products imported into the colonies. The Stamp Act and the revenue

* Bernard's Select Letters, 5.

† Bishop, I., 89.

‡ Bancroft, III., 73; Am. Archives, 5th series, II., 967.

§ Beer, 146.

|| Bancroft, III, 73.

measures following, so aroused the spirit of indignation and rebellion in the colonies that they produced almost a complete suspension of trade with the Mother Country. Under such conditions they had to begin to manufacture for themselves and to supply their own needs in other directions.

Although up to the time of the war, on account of the difficulties mentioned in the last chapter, very little real progress had been made in the establishment of manufactures, yet there was a marked change in that direction. Manufactures were spurred on by necessity, and were encouraged by legislative acts, by feelings of patriotism and by social pressure.

An international trade to be successfully carried on for any length of time must be reciprocal, or the country having the unfavorable balance, will in the end be drained of its specie. Upon the rigid enforcement of the trade restrictions after 1763, the colonies could not carry on a reciprocal trade. Gov. Bernard stated well the conditions when he wrote in 1764, to a friend in England, that "The produce of the duties and internal taxes imposed on North America are to be remitted to the King's Exchequer at London and from thence to be dispensed to the services to which they are appropriated, and this method, it is said, will drain the American Colonies of all their specie so effectually, that their trade must be destroyed for want of means to carry it on."* Franklin also wrote in the same year that "The balance of their trade with Britain, being greatly against them, the gold and silver are drawn out to pay that balance, and the necessity of some medium of trade has induced the making of paper money, which could not be carried away."†

The Stamp Act and the subsequent revenue measures provoked a general feeling of indignation and resistance in the colonies. Great social pressure was brought to bear against the use of English goods. Feelings of patriotism overcame personal desires and interests, and non-importation agreements were made in the Southern as well as in the Northern colonies, with the purpose, as Hutchinson says, of alarming the manufacturers of England and of encouraging manufac-

* Bernard's Select Letters, 17.

† Works, III., 145.

tures in the colonies.* Agreements were signed by the merchants generally not to import goods from England, and agreements were made by the inhabitants not to purchase goods from merchants who imported them.† Orders already in for English goods were cancelled or conditioned, the same as new orders, upon the repeal of the Stamp Act, and there was a general suspension of trade.‡ Rich as well as poor dressed in homespun, ate no sheep in order to save the wool, and in every way possible simplified their life and manners to suit the changing conditions.§

Although, as we have seen, conditions were not such as to give rise to banking institutions, yet a change had been and was taking place which would soon demand their establishment. The stagnation of trade made it impossible for the colonists to pay their debts to the English merchants, and their credit with the merchants of other European countries, which had before been inconsiderable, was even less on that account. The colonists had to supply their own needs, and every resource they possessed was taxed to the utmost. The population of the colonies had been rapidly increasing, and the business of the country was beginning to assume larger proportions,—all of which contributed to the need of banking institutions in the colonies. This need began to be felt in the business centers and was recognized by the leading merchants. By 1763, business at the port of Philadelphia had increased to such an extent that some of the principal merchants, among them Robert Morris, as already noted, were encouraged to entertain the design of establishing a bank, the purpose of which was to facilitate and increase American trade. Negotiations were entered upon in Europe and a credit

* Hutchinson, III., 116-7.

† Hutchinson, III., 253; Bishop, I., 373; Weeden, II., 719; Scharf, II., 202.

‡ In Dec. 1765, Hancock wrote to his London agents: "You have my invoice for my spring supply of goods under the following limitations, which I insist that you strictly comply with, viz. . . . In case there is a repeal of the Stamp Act, you will please to send by Marshall the several articles in the inclosed invoice. . . . I have wrote for this in consideration of the United Resolves of not only the Principal Merchants & Traders of this Town but of those of the other trading towns of this Province, & which I am determined to abide by. I will not import one single manufacture of Great Britain unless the grievous Burthen be removed, and I have further to pray the favor that if this act be not repealed, you make out and send me all my account & whatever Balance may be due to you I will endeavor to remit as soon as possible, as under the Burthen of the Stamp Act I cannot carry on my business to any advantage & I cannot be a slave to enrich Placemen." Brown, 103.

§ Hutchinson, III., 116-117; Weeden, II., 719, 731-40.

established for that purpose, but the approaching Revolution prevented the carrying out of the plan.*

After the repeal of the Stamp Act, there was a rush of goods into the colonies and trade with England continued with more or less briskness up to the war. During the year 1770, and the three years following, the importations were particularly heavy and far in excess of demands,† and on account of the ill-judged purchases, payments were not so prompt as in previous years.‡ This rush of foreign goods was a drawback to the establishment of manufactures, but on the other hand manufacturing was encouraged by the social pressure for the use of American goods, which continued on account of the persistent attitude of England in maintaining that she had a right to raise a revenue from the colonies. It was becoming the fashion to wear American goods, and by the time of the war, people were generally clothed in domestic manufactures.§

During the Revolution, commerce and trade were at a standstill. The limited capital and the skill of the country were employed chiefly in those branches of manufacture which were immediately subservient to the war, and the system of household industry was preserved and extended.|| The colonists had a general confidence in their ability to supply the deficiency caused by the suspension of trade, but "their habitual and compulsory frugality," says Bishop, "alone carried them through the trying occasion."¶ By 1780 the industries of the country were in a deplorable condition. "The whole source of our supplies," wrote Peletiah Webster in that year, "are dying away fast, are lessening to an alarming degree, and threaten not a mere scarcity but a universal famine, want, and deficiency in a short time. Most people are lessening the business of their several occupations, down to a pitch just sufficient for their present occasions and

* Lewis, 13; Morris, Writings; Sumner, F. & F's of Rev., 21; Scharf & Westcott, III., 2086. See also ante page 19.

† Bishop, I., 389.

‡ Ibid.

§ Weeden, II., 789 et Seq. An interesting evidence of the social pressure for domestic goods is to be found in the postscript to the Pennsylvania Chronicle for Feb. 1st., 1768. It states that "the senior class of scholars at the University in Cambridge, have unanimously agreed to take their degree next commencement, dressed altogether in the manufactures of the country, a resolution which reflects the highest honor on that seat of learning."

|| Bishop I., 396.

¶ Bishop I., 390.

necessities, and many have wholly thrown up their occupations and live on their dead stock, and few are calculating their business on any large scale."*

The state of the continental finances was also deplorable.† Instead of being a reservoir to be fed continually by revenues, "The continental treasury was peculiar in that all streams flowed out from it and none into it."‡ The people persistently resisted any attempts at taxing them, and it became necessary to resort to requisitions and specific supplies. The large and repeated issues of continental currency, and the futile attempts to prevent its depreciation added to the difficulties. The resort to foreign loans had been carried to its utmost limit and by 1781 the powers of the Continental Congress to provide means for carrying on the war were almost exhausted.

In the midst of these disordered conditions of private and national affairs, Morris, the Minister of Finance, put into operation the plan which he had conceived in 1763 and established the Bank of North America primarily as an aid to the Government, so that when the war closed, there was, as has been shown, one modern banking institution in operation in the United States.

Upon the separation of the colonies from Great Britain it might be expected that the restrictions on their trade and industry would be withdrawn and that they would be permitted to develop without restraint. The necessity of supplying their own needs during the suspension of trade, and the protection offered by the war, had given a start to manufactures and other industries requiring more extensive capital and banking facilities,§ and it might also be expected that the industries of the country would develop rapidly along these lines, and that the Bank of North America would be quickly followed by other banks arising in response to the new industrial requirements. Such was, however, not the case. New banks arose very slowly.|| The first bank organized after the war was, as has been shown, the Bank of Massachusetts, in March, 1784. The Bank of New York, the next

* Fifth Essay on Free Trade and Finance.

† Sumner, F. & F.'s of Rev., Vol. I.

‡ Sumner, History, 35.

§ Weeden, II., 788-797.

|| McMaster, II., 30; Sumner, History, Ch. II.

to follow, began business in June, 1784, although it did not receive a charter until 1791. In 1790, the Bank of Maryland was established, and in 1791 two more were organized, the Bank of Providence, Rhode Island, and the Bank of the United States. Thus, in 1791, ten years after the beginning was made by the Bank of North America, there were only six banks in operation in the United States. During the next decade, however, banking spread very rapidly throughout the country, so that by 1802, there were thirty-three banking institutions in the United States employed in discounting notes and bills of exchange.*

It is necessary to observe closely the changes in the conditions of trade and industry during this period, in order to understand why American banking developed in this way. Although the war left the colonies politically independent, yet, economically they were not independent, and conditions in the new states and the policy pursued towards them by Great Britain, retarded greatly for a time the growth of industries, and the development of conditions, which would demand the assistance of banks.

Great Britain could no longer prevent the rise of manufactures by restrictive measures to be enforced in the states. She was, however, loth to give up the idea that she ought to retard their growth as much as possible. Consequently, she poured her goods upon the new states at such prices and credit that they could not resist buying them. She closed her own markets to many of their products, enforced odious navigation laws, and tried to prevent them from manufacturing for themselves, by passing rigid laws against the exportation of machinery, and even of plates and plans from which the necessary machinery could be made.† As soon as the war closed "all possibility of success in manufactures," says Bishop, "was for a time excluded by the superabundance of foreign goods, some of which sold twenty-five per cent cheaper than in London."‡ Great numbers of English shopkeepers, traders and factors rushed into the country and tempted the merchants to go into debt.§ The English mer-

* Noah Webster, *Banks*.

† Bishop, I, 396; Weeden, II, 848.

‡ Bishop, 395.

§ McMaster, I, 255.

chants, believing that trade would soon return to its old channels, gave unlimited credit and as the colonial merchants imported freely, the market soon became overstocked.*

These heavy imports could not continue, for the natural means of payment were again precluded by England's short sighted policy of trade restrictions. Heavy import duties were laid on all American exports† with the result that the exports to England remained very small, and since the ports of other European countries had so long been closed to American shipping, they too furnished little demand for American goods.‡

In 1784, England sent to America merchandise amounting to 3,700,000 pounds and took only 750,000 pounds worth of her products in return,§ and during the first three years after the war, the exports from England to America as shown by the English Custom-house books, amounted to 7,590,955 pounds sterling, while the imports from America during the same period were only 2,486,058 pounds.|| This state of trade drained the country of its specie and brought about a serious derangement of currency.¶

By 1785, the conditions were serious, and complaints were loud throughout the country. "Now trade was stagnant," said the grumblers, "and the country was being so rapidly drained of its specie that the day seemed near at hand when the people would not have one joe to rub against the other."** The country was still suffering from the effects of the war. The people were weighed down by heavy taxes and by large debts, national, state and private, and in addition to all of these difficulties came a paper money craze in 1786, which completed the prostration of trade.*** The paper money party in each state was strengthened by the fact that money was scarce, and "Rag money" was emitted by all the states except Connecticut and Delaware. The old story of

* Weeden, II., 818.

† Bishop, I., 235.

‡ McMaster, I., 208.

§ Weeden, II., 837; McMaster, I., 206.

|| See table in Pitkin, 30.

¶ "As a cause of it (the deranged condition of our currency) Gov. Bowdin assigns extravagant importations, which leave the balance of trade greatly against the commonwealth, and draw the specie to foreign ports." Quoted in Felt, 200; See also McMaster, I., Ch. III.

** McMaster, I., 205.

*** See McMaster, I., Ch. III., especially pp. 281-3, 301, 333, 356; Felt, 201-205; Bishop, II., Ch. I; Fiske, Critical Period, Ch. IV; Weeden, II., Ch. XXIII.

depreciation, disturbed values, and stagnation of trade was repeated. Trade was carried on to a large extent by barter. The refusal to sell goods except for specie became general, and many merchants closed their stores and wholly discontinued their business. With such burdens upon the community, monied concerns were unsettled, credit at the lowest ebb, and the business of the country almost at a standstill.

Under the Confederation there seemed no remedy for this state of affairs.* The power to regulate Commerce did not exist in Congress but remained in the several states, and the rivalries and jealousies among the states prevented any united action. Navigation acts and tariff acts were passed by some of the states, and the people tried to unite to buy no more English goods, but since united action could not be obtained these retaliatory measures were ineffective, and each state continued to regulate commerce according as it seemed to her own special interests. No effective retaliation was possible until after the establishment of the Constitution.

Although the growth of American manufactures was retarded for a time after the war by English restrictive laws, and by the rush of English goods, yet these very things produced as their final results, a stimulus to manufactures. In the first place, a trade so unfavorable to the states could not continue, and a large part of the manufactured goods needed would finally have to be supplied at home. Secondly, the American merchants bought more goods than they could sell, and consequently more than they could pay for. This greatly injured their credit with their English agents, and the courts were filled with suits against delinquent debtors.† The credit of the American merchants had also suffered by the dilatory payment of the pre-revolutionary debts.‡ The treaty of peace with England had recognized all private debts on either side as still binding, and although the faith of the United States was distinctly pledged, Congress was unable to carry out the provisions of the treaty in this respect.§ So great was the burden of private debts to the merchants of England,

* See Curtis, Ch. IV; Flske, *Critical Period*, 142-156; Weeden, II., 837-839. Pitkin, 27-33; McMaster, I., 207.

† Washington's Writings IX., 464; Pitkin, 31; Bishop, II., 14; McMaster, I; Weeden, II., 846.

‡ McMaster, I, 236-238.

§ Flske, *Critical Period*, 28 & 131.

that several of the states enacted laws, which remained in force until the downfall of the Confederation, obstructing the collection of British debts,* and in Massachusetts in 1786, the embarrassed condition of many who had property but could not raise money to pay their creditors, induced the Legislature to suspend under certain limitations, the collection of all private debts.†

We have seen what an important part the colonial credit operations played in retarding the rise of manufactures and with them of banking institutions. When this extensive credit could no longer be obtained an effective barrier to their development was removed. The people of the United States were driven to manufacture for themselves, and although great difficulties had to be encountered, and no effective assistance was rendered by the Government, there was a noticeable increase of manufactures by 1789.‡ In Massachusetts for example, according to Bishop, "The importation of foreign manufactures was less by one-half than it was twenty years before, although the population had greatly increased."§ A general view of the manufactures in 1789, was given by Mr. Coxe, Assistant Secretary of the Treasury. He said, "The manufactures of the United States are certainly greater than double the value of their exports in native commodities, and much greater than the gross value of their imports, including the value of goods exported again."||

During the first decade after the Bank of North America was established, few banks, as has been pointed out, were formed. This is not to be wondered at when we consider the trade depression existing during the Confederation. Few banks were needed at a time of such business inactivity. Philadelphia, Boston, and New York were the largest cities in the United States at this time. It was in these centers that the principal part of the business of the country was carried on,¶ and there, naturally, banks would first appear. Each of these trade centers had, as we have seen, a bank to facilitate its operations. It was the idea when these banks

* Fiske, *Critical Period*, 131.

† Felt, 204.

‡ Bishop I., 422; Weeden II., 848-856; *First Century of the Republic*, 40 et Seq.

§ Bishop I., 414.

|| Quoted in Bishop I., 423.

¶ McMaster I., Ch. I; Adams I., Ch. I.

were formed that there should be only one bank in each state, and it was intended that the banking facilities in that state should be supplied by that one banking institution.* Thus up to 1791, the Bank of North America, the Bank of Massachusetts, and the Bank of New York had no competitors in the states where they were established.

The establishment of the Constitution gave stability and security to the business enterprises of the country, and brought about a great revival of trade and industry. Public and private credit were gradually restored. Manufactures and other industries got a firm foothold and rapidly developed. The wealth of the country assumed in a short time unexpectedly great proportions, and population increased so fast that the existing system, where the banking services of the country were supplied by a few banking institutions, and in a small way by scattered individuals, and by foreign and native merchants, became insufficient to supply the needs of the changing conditions. It was in response to these new demands of industry that banking institutions sprang up so rapidly in the United States during the twenty years following the year 1789. In order to show the connection between the growth of banking institutions and the increasing activity in the country during this period, it is necessary to examine carefully some of the changes that took place.

As early as 1791, general conditions in the country showed a marked improvement. McMaster says that by that time "the country had become one of peace and plenty" and although there was some discontent the grumblers were chiefly confined to the states South of the Potomac river.† The large collections from imports were an indication of the prosperous state of business affairs. \$1,900,000 was collected in the year 1791, an amount equal to two thirds of the annual expenses of the Government.‡ The year 1792 showed continued prosperity. "Never," says McMaster, "had money been so plentiful."§

As soon as the New Republic was firmly established, manufactures increased rapidly in the country, and shared the

* Sumner, History, 20.

† McMaster, II., 22.

‡ McMaster, II., 25.

§ McMaster, II., 74.

rising prosperity.* The power to regulate commerce was, under the Constitution, delegated to Congress, and effective encouragement could be given to home producers. Although Congress did not make use of the power to any extent for some time, the effect psychologically was good. The existence of the power created confidence. The important inventions of labor saving machinery in the latter part of the century were a great aid to the growth of manufactures, and their development was made easier by the fact that the social prejudice against industries of this nature was fast disappearing with the gradual breakdown of class distinctions. It is an interesting fact, that the operatives of the first factories in the country were largely drawn from the first families of the well-to-do country people. It is not necessary for our purpose to give an account of the various manufactures that gained a foothold during this period. It is enough to know that the people of the United States began largely to supply their own needs, and gradually to manufacture also for export.†

The extraordinary prosperity which began in this country in the waning years of the century was largely due to the disordered conditions of Europe.‡ The war which began between England and France in 1793, and which finally involved nearly all of the nations of Europe, made it necessary for a large part of the trade of the world to be carried on under neutral flags. The geographical position of the United States with reference to the West India islands and the familiarity of our merchants with the conditions in the West Indies, enabled the Americans to get a large part of this carrying trade, the growth of wealth in the country and the enterprising spirit of the people, also enabled them to engage in trade with the East Indies and other parts of the

* See Weeden II., 848-859; Bancroft VI., 141, et seq.; Bishop 1, 398 et seq.; First Century of the Republic, 40, et seq.; Taussig, Tariff History; Hill, Early Tariff History.

† Pitkin, 144, gives the value of goods of domestic manufacture exported, from 1803 to 1807, as follows:

1803.....	\$1,355,000
1804.....	\$2,100,000
1805.....	\$2,300,000
1806.....	\$2,707,000
1807.....	\$2,120,000

‡ See McMaster, Pitkin, and Adams.

world.* The products of these countries were carried either directly to Europe or brought to the United States and re-exported in American vessels. While products were carried to Europe from different parts of the world, manufactured goods were imported from Europe to the United States and again exported to the West Indies, South America and other countries. Many of the goods thus imported were subject to import duties, and although they were generally entitled to a drawback when re-exported, in certain cases no drawback was allowed and the duties paid on importation remained in the public treasury. The treasury also derived some permanent revenue from all dutiable goods imported, for three and a half per cent was retained on drawbacks. It is difficult to ascertain the amount of public revenue obtained in this way. Pitkin gives tables showing the permanent receipts from this trade during the years 1805, 1806 and 1807. During this period, according to these tables, \$5,253,697.68 was retained by the Treasury.† This amount represented a real increase of wealth and relieved the people to that extent from taxation, for since these products were not sold in the United States the people did not pay the import duties.

Another, and far more important result of this carrying trade was the remarkable increase of tonnage in the United States.‡ The registered tonnage nearly doubled in the years from 1793 to 1801. In 1793, the registered tonnage employed

	* Export of Foreign Produce. Export of Domestic Produce	
	1791.....	500,000 18,500,000
	1792.....	1,750,000 18,250,000
	1793.....	2,100,000 24,000,000
	1794.....	6,500,000 26,500,000
	1795.....	8,500,000 39,500,000
	1796.....	26,300,000 40,700,000
	1797.....	27,000,000 29,800,000
	1798.....	33,000,000 28,500,000
	1799.....	45,500,000 33,100,000
	1800.....	39,100,000 31,900,000
	1801.....	46,600,000 47,400,000
	1802.....	35,700,000 36,300,000
Peace of Amiens	1803.....	13,600,000 42,200,000
	1804.....	36,200,000 41,500,000
	1805.....	53,200,000 42,300,000
	1806.....	60,300,000 41,200,000
	1807.....	59,600,000 48,700,000

The exports of foreign produce are taken from table in Taussig's *Tariff History*, 12, and the exports of domestic produce are ascertained from figures given in the same table. The development of the carrying trade is shown by the growth of the exports of foreign produce. During the years 1798, 1799, 1800 and 1805-6 & 7, the value of the goods re-exported was greater than the value of the domestic exports.

† Pitkin, 174.

‡ See table in Chap. XI of Pitkin.

in the foreign trade was, in round numbers, 367,000 tons. and in 1801 it had increased to 718,000 tons. The tonnage decreased slightly during the years 1802, 3-4, when it increased again so that in 1807, it amounted to 848,000 tons. There was an equally great increase in the tonnage employed in the coasting trade.

Further evidence of the increased activity in the United States following the establishment of the constitution, is to be found in the remarkable growth of exports and imports. Exports and imports had increased about 500 per cent by 1807.*

This unprecedented increase of business activity in the United States, ushered in an era of great prosperity, which continued until the trade depression following the commencement of commercial restrictions in the latter part of the year 1807. During this period the increase of wealth both national and individual was so great, that, as Pitkin says, "No Nation it is believed had ever increased so rapidly in wealth as the United States."† Liancourt, as early as 1797, made note of the increase of ready capital among the merchants. He says, "The capital of the merchants experiences here [New London, Conn.] a much smaller augmentation than in any other part of America. In the course of these last few years it has increased about a fifth part,"‡ and about Salem he writes, "All the inhabitants find themselves in a flourishing condition * * * all the profits acquired by trade are reimparked in trade, and the accumulation of interest upon interest insures them a large capital by which they are enabled to bear up against casual losses."§

	Gross Imports.	Gross Exports.
1791.....	29,200,000	19,000,000
1792.....	31,500,000	20,700,000
1793.....	31,100,000	26,100,000
1794.....	34,600,000	33,000,000
1795.....	69,750,000	48,000,000
1796.....	81,400,000	67,000,000
1797.....	75,400,000	56,800,000
1798.....	68,500,000	61,500,000
1799.....	79,000,000	78,600,000
1800.....	91,200,000	71,000,000
1801.....	111,300,000	94,000,000
1802.....	76,300,000	72,000,000
1803.....	64,700,000	55,800,000
1804.....	85,000,000	77,700,000
1805.....	120,600,000	95,500,000
1806.....	129,400,000	101,500,000
1807.....	138,500,000	108,300,000

Tables taken from Taussig's *Tariff History*, page 12.

† Pitkin, Ch. 33; See also McMaster; and Adams I., Ch. I.

‡ Liancourt II., 305. Liancourt's information was obtained from the Collector of Customs in New London.

§ Liancourt, II., 241

British capital, which was formerly of such great assistance in conducting the business operations of the country, had been gradually withdrawn, and the domestic capital had so much increased by 1808, that "what was once a principal agent," says Baring, "is now scarcely felt."* Baring further says that, "the proportion of capital to the demand for it has, as might be expected, been gradually improving in America during the last war. Though the legal rate of interest is only 6 per cent, the market rate was from twelve to twenty; at present it is at little more than the legal rate."†

These conditions differed greatly from those existing during the colonial period, when a large part of the industrial operations of the country were so limited and of such a nature that no large circulating capital was required, and when the industries that did require financial assistance were almost wholly carried on with foreign capital, credit, and banking accommodations. Under those conditions there was not, as we have seen, a sufficient demand, to cause the rise of banking institutions. Under the new conditions where industrial operations assumed larger and more complex proportions, requiring extensive capital and banking facilities, the demand for banking institutions was an effective one to which a response was quickly given.

The first banks that were formed proved of great assistance in facilitating and augmenting the business of the country, and the financial success of the early banks, especially of the Bank of North America, caused many other banks to spring up in imitation.‡ The rapid growth of banking institutions beginning in the last decade of the eighteenth century, was not, it is true, due wholly to the legitimate demands of trade and industry, nor were all of the banks formed at that time, conducted on good banking principles.

The large profits earned by the first banks, and the visions of easily acquired wealth to be gained from the privilege of issuing bank notes, encouraged the establishment of a large number of unnecessary banks. Banking became the favorite

* Baring, 55.

† Baring, 63.

‡ Felt 194, 197, 199; Clark and Hall, 235-237; Lewis, 74-75.

form of speculation, and a bank mania followed with the most disastrous results.*

It is not necessary for our purpose to carry this investigation further. It is sufficient to know that when industrial conditions in the United States demanded the assistance of banking institutions, they arose to supply the need. An examination of the conditions which later brought about a great deal of unsound banking, and caused the multiplication of banks far in excess of the legitimate demands, does not come within the scope of our subject. Commercial banking did not arise in this country until the conditions of trade and industry demanded, and when it did arise, it developed in compliance with trade requirements.

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* Sumner, History.

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